INSURANCE TAXES
General Fund Revenue Estimate

Revenue Description

Montana levies a tax of 2.75% on net premiums on all insurance policies (33-2-705, 706, MCA). There is an additional tax of 2.5% on premiums for fire and casualty insurance on property, insurance of property in transit, insurance against loss or damage to motor vehicles, crop insurance, insurance against water damage, insurance against property damage from vehicle accidents, and insurance against theft of a vehicle (50-3-109, MCA)

Section 33-2-712, MCA provides for a genetics program fee of $0.70 per each Montana resident insured under any individual or group disability or health insurance policy. This fee is used to fund the statewide genetics program established in 50-19-211, MCA.

Historical and Projected Revenue

Table 1 shows actual insurance premiums taxes for fiscal years 1990 through 2002 and projected revenue for fiscal years 2003 through 2005.

Table 1
Insurance Premium Tax - General Fund Collections
($ millions)

	Fiscal Year	General Fund	Percent Change
A	1990	$19.446	NA
A	1991	$20.438	5.10%
A	1992	$20.387	-0.25%
A	1993	$24.464	20.00%
A	1994	$22.511	-7.98%
A	1995	$24.600	9.28%
A	1996	$26.166	6.37%
A	1997	$25.342	-3.15%
A	1998	$36.813	45.26%
A	1999	$38.137	3.60%
A	2000	$39.334	3.14%
A	2001	$42.298	7.54%
A	2002	$47.291	11.80%
F	**2003**	**$50.637**	**7.08%**
F	**2004**	**$54.812**	**8.24%**
F	**2005**	**$58.603**	**6.92%**

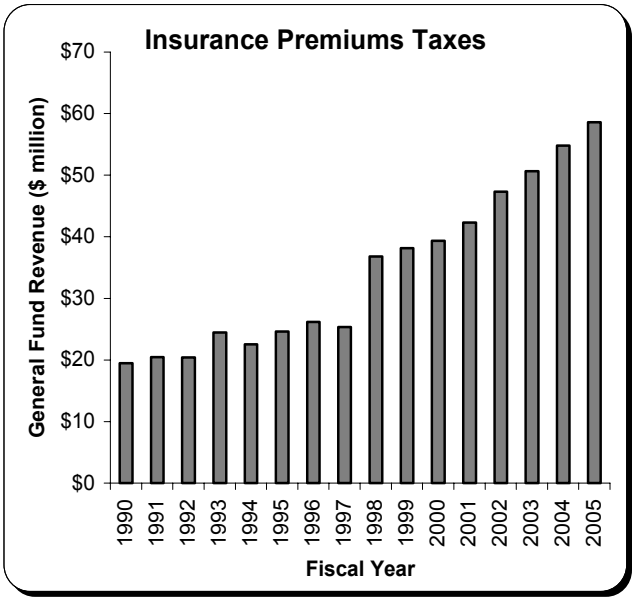

Table 1 reflects two changes in the allocation of revenue from the insurance premiums tax. Through fiscal 1997, part of the premiums tax revenue was paid into pension and benefit funds for police officers and firefighters. The large increase in general fund revenue in fiscal 1998 is due to the fact that all premiums taxes began to be paid into the general fund in that year. Through the end of calendar 1999, insurance company permits and fees were paid into the general fund. Beginning with calendar year 2000, these permits and fees are paid into a special revenue account. Receipts for fiscal year 1993 were above the trend because a temporary 7% surtax was imposed for calendar year 1992.

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Forecast Methodology and Projection Calculation

Insurance premiums tax receipts depend on the value of insurance premiums and on deductions that insurance companies are allowed to take against their tax liabilities. Genetics program fees depend on the number of residents covered by disability and health insurance policies.

Insurance Premiums Tax

An insurance company's premiums tax liability is the tax rate multiplied by its annual premiums, less deductions. Total premiums depend on the amount of insurance coverage that consumers and businesses buy and on the price that insurance companies charge for that coverage.

Companies are allowed to deduct amounts they are assessed by the Montana Life and Health Insurance Guarantee Association (MLHIGA) and the Montana Comprehensive Health Association (MCHA).

MLHIGA protects policyholders against insurance company insolvencies. When an insurance company doing business in Montana becomes insolvent, MLHIGA covers its liabilities by making assessments against all the other insurance companies. These assessments may last for up to five years.

MCHA subsidizes health insurance for high-risk individuals, such as people with serious pre-existing conditions. In most years, the sum of premiums paid by high-risk policyholders is less than their total claims. MCHA reimburses companies who insure high-risk individuals for their losses on these policies. It covers these losses by making assessments against the other insurance companies.

MLHIGA assessments were unusually high in the mid 1990s because of the bankruptcy of a single large insurance company. They have been decreasing since fiscal 1997 but the State Auditor's office expects offsets to increase again in fiscal 2003.

Table 2 shows actual offsets in fiscal years 1998 through 2002 and projected offsets for fiscal years 2003 through 2005.

Table 2
MLHIGA and MCHA Offsets
($ million)

Fiscal Year	Offsets
1998	$3.030
1999	$2.638
2000	$2.083
2001	$0.861
2002	$0.736
2003	**$1.843**
2004	**$1.218**
2005	**$1.218**

The price of insurance is influenced by insurance companies' investment earnings. Insurance companies maintain reserves to cover unexpectedly high claims. They invest these reserves in corporate and government securities, mortgages, real estate and other assets. Insurance companies set their rates so that the sum of premiums and investment earnings will pay the average level of claims and pay dividends to the owners.

When income from these investments is high, insurance companies can reduce their rates. When investment income is low, insurance companies must raise their rates. The dramatic run-up in the price of stocks from 1996 through 2000 gave insurance companies unexpected capital gains, which allowed them to hold down rates.

From 1991 through 1997, the average rate of growth of the base premiums tax (excluding the surtax on fire and casualty insurance) was 6.83%. Table 2 shows growth in the base premiums tax, before offsets, for fiscal years 1997 through 2002.

Table 3
Premiums Tax Growth

Fiscal Year	Premiums Tax Before Offsets ($ million)	% Growth
1997	$37.930	6.74%
1998	$36.211	-4.53%
1999	$35.674	-1.48%
2000	$37.834	6.06%
2001	$39.874	5.39%
2002	$44.798	12.35%

In fiscal years 1998 and 1999, premiums tax collections decreased, as capital gains from the rising stock market allowed insurance companies to reduce premiums. Average stock prices grew slower in fiscal 2000, peaked and began to fall in fiscal 2001 and plunged in fiscal 2002. As the stock market slowed, insurance companies were no longer able to reduce rates, and total premiums began to grow again. In fiscal 2002, insurance companies were forced to raise their rates, and premiums tax collections grew much faster than normal.

In the first quarter of fiscal 2003, collections were 13.53% higher than in the first quarter of fiscal 2002 as the fall in stock prices in fiscal 2002 forced companies to continue to increase rates. However, stock prices are projected to stabilize and then begin to increase in fiscal 2003. This will reduce the upward pressure on rates, and premiums taxes are projected to increase 10% for the whole of fiscal 2003. Premiums tax growth is projected to return to the long run trend of 6.83% annual growth in fiscal years 2004 and 2005.

Table 4 shows the calculation of projected premiums tax collections. The first row shows actual total premiums tax liability for fiscal years 2002, including both the base premiums tax and the surtax on fire and casualty insurance, offsets that are subtracted from the tax liability, and net collections. The bottom three rows show the calculation of net collections for fiscal years 2003 through 2005. For each year, the tax liability in the second column is calculated by applying the projected growth rate, in the center column, to the previous fiscal year's tax liability. Then, projected offsets, in the fourth column, are subtracted from tax liability to give net collections in the fifth column.

Table 4
Premiums Tax Growth

Fiscal Year	Premiums Tax Liability with Fire & Casualty Surtax ($ million)	% Growth	Offsets	Net Collections
2002	$47.166		$0.736	$46.430
2003	**$51.882**	**10.00%**	**$1.843**	**$50.039**
2004	**$55.426**	**6.83%**	**$1.218**	**$54.208**
2005	**$59.212**	**6.83%**	**$1.218**	**$57.994**

Genetics Program Fees

Section 50-19-211, MCA provides for a voluntary genetics program designed to offer testing, counseling, and education to parents and prospective parents. This program is funded by a fee, paid by insurers or health service corporations, of $0.70 for each Montana resident insured under any individual or group disability or health insurance policy. The fee is deposited in the general fund.

Table 5 shows actual genetics program fees through fiscal 2002 and forecast fees through fiscal 2005.

Table 5
Genetics Program Fee

Fiscal Year	State Population		Percent Insured		Insured Persons		Fee per Insured Person		General Fund Revenue
1993	844,761	x	94.1%	=	795,221	x	$0.70	=	$556,655
1994	861,306	x	89.8%	=	773,469	x	$0.70	=	$541,428
1995	876,553	x	97.5%	=	854,867	x	$0.70	=	$598,407
1996	886,254	x	99.0%	=	877,591	x	$0.70	=	$614,314
1997	889,865	x	86.9%	=	773,221	x	$0.70	=	$541,255
1998	892,431	x	91.9%	=	820,584	x	$0.70	=	$574,409
1999	897,507	x	92.2%	=	827,135	x	$0.70	=	$578,995
2000	903,157	x	85.8%	=	774,854	x	$0.70	=	$542,398
2001	904,433	x	100.3%	=	907,003	x	$0.70	=	$634,902
2002	912,968	x	89.2%	=	813,987	x	$0.70	=	$569,791
2003	**921,584**	**x**	**92.7%**	**=**	**854,053**	**x**	**$0.70**	**=**	**$597,837**
2004	**930,281**	**x**	**92.7%**	**=**	**862,113**	**x**	**$0.70**	**=**	**$603,479**
2005	**939,060**	**x**	**92.7%**	**=**	**870,249**	**x**	**$0.70**	**=**	**$609,174**

The number of insured persons has varied from 86% to 100% of the population. For fiscal years 1993 through 2002, the average was 92.7%. The percentage fluctuates from year to year due to changes in the percentages of uninsured persons and of persons covered by more than one policy. The forecast assumes that the number insured will equal 92.7% of the state's population for fiscal years 2003 through 2005.

General Fund Revenue

Total revenue to the general fund is the sum of insurance premiums tax receipts and genetics program fees. Table 6 shows actual revenue for fiscal year 2002 and projected revenue for fiscal years 2003 through 2005. Through calendar year 2000, revenue from insurance licenses and fees was deposited in the general fund. Beginning in calendar 2001, all insurance licenses and fees are deposited in a special revenue account. Some license and fee revenue for 2000 and earlier years was received in fiscal years 2001 and 2002, but none is projected for future fiscal years.

Table 6
Total Insurance Premiums Tax General Fund Collections
($ million)

	Fiscal Year	Insurance Premiums Tax		Genetics Fee		Licenses and Fees		General Fund Revenue
A	2002	$46.430	+	$0.570	+	$0.291	=	$47.291
F	**2003**	**$50.039**	**+**	**$0.598**	**+**	**$0.000**	**=**	**$50.637**
F	**2004**	**$54.208**	**+**	**$0.603**	**+**	**$0.000**	**=**	**$54.812**
F	**2005**	**$57.994**	**+**	**$0.609**	**+**	**$0.000**	**=**	**$58.603**

Revenue is projected to increase by $3.6 million in fiscal 2003 as insurance companies continue to raise rates. If offsets had not increased by $1.1 million, the increase would have been $4.7 million. Revenue is projected to increase by $4.2 million in fiscal 2004 and $3.7 million in fiscal 2005 as growth returns to the long run trend.

Data Sources

Past collections are from the state accounting system. Information on MLHIGA and MCHA assessments was provided by the State Auditor's Office. Population estimates are from Woods and Poole Economics.